

Message Text

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ACTION SS-30

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FM AMEMBASSY JAKARTA

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S E C R E T JAKARTA 9567

EXDIS

E.O. 11652: GDS

TAGS: PFOR, ENRG, EAID, ID

SUBJ: CONVERSATION WITH PRESIDENT SUHARTO: US-
INDONESIAN COOPERATION IN DEVELOPMENT

REF: STATE 156326

1. SUMMARY: IN ONE HOUR CONVERSATION WITH PRESIDENT

SUHARTO AUGUST 3 I REASSURED HIM REGARDING HIGH VALUE
PLACED ON CLOSE COOPERATIVE RELATIONS AND REVIEWED
CURRENT PROBLEMS FACING OUR ASSISTANCE PROGRAMS AND
OUR INTENTIONS REGARDING THEM. IN ECONOMIC SPHERE
PRESIDENT HELD FIRMLY TO OPINION THAT INDONESIA STILL
NEEDS SUBSTANTIAL EXTERNAL ASSISTANCE ALTHOUGH NOT
NECESSARILY ON FULLY CONCESSIONAL TERMS. MILITARY
ASSISTANCE AND LOS SUBJECTS BEING REPORTED IN SEPTELS.
END SUMMARY

2. PRESIDENT SUHARTO RECEIVED ME AUGUST 3 IN COMPANY OF
GENERAL SUDHARMO, CHIEF OF PROTOCOL GENERAL
LATIEF AND INTERPRETER WIDODO. I WAS ACCOMPANIED BY DCM.

3. EXPRESSING APPRECIATION FOR BEING RECEIVED DESPITE
PRESIDENT'S BUSY SCHEDULE, I STATED I COMING UNDER
INSTRUCTIONS TO REASSURE PRESIDENT CONCERNING HIGH VALUE WE
PLACE ON OUR CLOSE AND COOPERATIVE RELATIONS AND TO REVIEW
WITH HIM OUR PROGRAMS AND PROBLEMS IN PERIOD OF CHANGE.

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I MENTIONED SPECIFICALLY COOPERATION IN DEVELOPMENT,

MILITARY ASSISTANCE, INDOCHINA AND LAW OF SEA.

4. IN REITERATING OUR DESIRE TO CONTINUE COOPERATION IN INDONESIA'S ECONOMIC DEVELOPMENT, I SAID THAT I WOULD NOT DISGUISE FACT THAT SERIOUS PROBLEMS EXISTED. INDONESIA'S RAPIDLY RISING OIL REVENUES AND GENERAL ADVERSE U.S. REACTION TO CONTINUING HIGH OIL PRICES MEANT THAT U.S. CONGRESS WAS EXAMINING CRITICALLY ECONOMIC ASSISTANCE TO INDONESIA. I MENTIONED TO PRESIDENT THAT I HAD BEEN DISCUSSING BOTH ASPECTS WITH HIS MINISTERS INCLUDING OUR CONCERN OVER IMPACT OF HIGH OIL PRICES ON WORLD ECONOMY GENERALLY. WE UNDERSTOOD INDONESIA'S SPECIAL CIRCUMSTANCES BUT THIS DID NOT CHANGE FACT OF PROBLEMS CREATED BY HIGH OIL PRICES; WE HOPED FOR DECLINE IN ACCORDANCE WITH MARKET CONDITIONS.

5. DESPITE PROBLEMS, U.S. HAD PLEDGED ITS SUPPORT FOR IGGI AND IN LAST IGGI MEETING PLEDGED 1/3 OF ALL BILATERAL ASSISTANCE. IN DOING SO WE WERE HELPED BY INCREASED IBRD PLEDGE AND BY WILLINGNESS OF INDONESIA TO ACCEPT LESS THAN CONCESSIONAL CREDIT. U.S. WOULD MAKE EVERY EFFORT STAY IN STEP WITH IBRD AND OTHER DONORS LOOKING TOWARD FURTHER REVIEW OF SITUATION IN NEXT APRIL IGGI MEETING.

6. I REPORTED TO PRESIDENT APPROVAL OF THREE AID CONCESSIONAL LOANS: ACEH PROJECT, MALARIA PROJECT AND PADAT KARYA (RURAL DEVELOPMENT). TO MEET OUR IGGI PLEDGE WE WERE REQUESTING CONGRESS FOR \$60 MILLION IN DEVELOPMENT LOANS AND \$116 MILLION IN PL 480. WE HAD NO ASSURANCES THAT THESE SUMS WOULD BE VOTED NOR THAT COMMODITIES WOULD BE AVAILABLE FOR PL 480 PROGRAMS. WE WOULD, HOWEVER, MAKE EVERY EFFORT DO WHAT WE COULD.

7. AS PRESIDENT KNEW, WE WERE ALSO EXPLORING POSSIBILITY OF EXPORT/IMPORT BANK CREDITS FOR DEVELOPMENT PROJECTS. EXIM BANK CURRENTLY FACING CONGRESSIONAL PROBLEMS AND IS IN NO POSITION MAKE COMMITMENTS. BANK IS INTERESTED IN INDONESIA, HAD VALUABLE MEETING RECENTLY WITH INDONESIAN DELEGATION IN WASHINGTON AND IS NOW ACTIVELY CONSIDERING GOI APPLICATIONS ON PARTICULAR PROJECTS. WE STILL LOOKED FORWARD TO VISIT BY PRESIDENT CASEY AND FURTHER EXPLORATION THIS AREA OF POTENTIAL
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COOPERATION.

8. IN RESPONSE TO PRESENTATION ON ECONOMIC ASPECTS PRESIDENT SAID HE UNDERSTOOD PROBLEMS WITH U.S. CONGRESS AND REGRETTED THERE WAS NOT FULL UNDERSTANDING OF INDONESIA'S SITUATION. INDONESIA WAS NOT LARGE PRODUCER OF OIL AND IT HAD TREMENDOUS DEVELOPMENT NEEDS. MOST OF CURRENT OIL REVENUES WOULD NEED TO BE DIVERTED TO PURCHASING ESSENTIAL COMMODITIES ABROAD AND

SUBSIDIZING THEM AT LEAST UNTIL INDONESIA WAS ABLE PRODUCE THESE DOMESTICALLY. HE MENTIONED SPECIFICALLY FERTILIZER, SUGAR AND RICE AND ESTIMATED THAT APPROXIMATELY \$900 MILLION A YEAR WOULD BE NEEDED FOR THESE IMPORTS AND PRICE SUBSIDIES, UNTIL NEW FERTILIZER PLANTS, SUGAR MILLS, AND RICE PROJECTS OPENED.

9. I REFERRED TO ESTIMATES BY FINANCIAL EXPERTS OF A POSSIBLE SURPLUS OF \$1.5 BILLION IN INDONESIA'S BALANCE OF PAYMENTS THIS YEAR AFTER DEVELOPMENT, IMPORT AND SUBSIDY COSTS WERE TAKEN AWAY. PRESIDENT SAID THIS WAS NOT CORRECT. HIS UNDERSTANDING IS THAT MOST OF SURPLUS FUNDS THIS YEAR WILL GO TO HIGHER COST IMPORTS AND SUBSIDIES AND THAT INDONESIA WILL THEREFORE CONTINUE TO NEED SUBSTANTIAL FOREIGN CREDITS FOR ITS DEVELOPMENT EVEN THOUGH THESE MAY NOT ALL BE ON FULLY CONCESSIONAL TERMS. HE STRESSED THAT INDONESIA NEEDED TO CONTINUE ITS DEVELOPMENT PROGRAM DESPITE THESE OTHER COSTS AND THAT SUCH PROGRAM NEEDED TO BE IN SOCIAL AS WELL AS ECONOMIC AREAS.

10. STATING THAT WE FULLY UNDERSTOOD INDONESIA'S DEVELOPMENT NEEDS, I SAID WE WISHED TO CONTINUE OUR TRADITIONAL COOPERATION AS LONG AS IT WAS GENUINELY NEEDED AND COULD BE JUSTIFIED. REPORTS OF SUBSTANTIAL BALANCES MADE THIS JUSTIFICATION DIFFICULT IN ABSENCE OF CLEAR INDICATION AS TO HOW THESE BALANCES WERE BEING APPLIED TO INDONESIA'S BUDGETARY AND DEVELOPMENT REQUIREMENTS. AS WE LOOKED AHEAD WE HOPED THERE COULD BE COMMON RECOGNITION OF CHANGED CIRCUMSTANCES AND TRANSITION TO OTHER TYPES OF COOPERATION WITH LESS CONCESSIONAL CREDITS AND REIMBURSABLE TECHNICAL ASSISTANCE. PACE WOULD DEPEND ON CONGRESS AND ON INDONESIA'S OWN MOVEMENT TOWARD SELF-RELIANCE. IMPORTANT FACT WAS U.S. DESIRE TO CONTINUE CLOSE COOPERATION AT PACE WHICH TOOK INTO ACCOUNT INDONESIA'S GENERAL NEEDS.

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11. PRESIDENT SAID HE UNDERSTOOD AND APPRECIATED U.S. ATTITUDE BUT REITERATED HIS BELIEF THAT INDONESIA NOT YET ABLE TO DEPEND SOLELY ON ITS OWN RESOURCES.

12. COMMENT: IT IS CLEAR FROM THE CONVERSATION THAT EITHER BECAUSE PRESIDENT UNWILLING TO FACE FACTS OR HIS ADVISORS UNWILLING TO TELL HIM, HE IS NOT ACTING ON BASIS OF ANY TRUE APPRECIATION OF INDONESIA'S CURRENT FINANCIAL SITUATION AND LIMITATIONS ON ITS ABILITY SPEND ITS ENTIRE NEW RESERVES. HE APPRECIATES THAT TIME WILL COME BUT DOES NOT BELIEVE IT IS YET HERE. FROM OUR STANDPOINT, I BELIEVE HE GENERALLY APPRECIATES OUR PROBLEMS AND ADMINISTRATION'S INTENTIONS AND THAT HE WILL ACCEPT TRANSITION TO LESS CONCESSIONAL ASSISTANCE PROVIDED TRANSITION IS NOT TOO ABRUPT.

HE ACCEPTED POINT ON HIGHER OIL PRICES BUT REITERATED STANDARD
INDONESIAN BELIEF THAT INDONESIA IS SMALL PRODUCER WITH
GREAT NEEDS AND SHOULD OBTAIN ALL POSSIBLE BENEFITS FROM
ITS HYDROCARBON RESOURCES.
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